

MINUTES  
MEETING OF THE  
ILLINOIS STATE BOARD OF INVESTMENT  
FRIDAY, JUNE 25, 2010 – 8:45 A.M.

Present:        Board Members            Michele Bush  
   Thomas Hoffman  
   Daniel Hynes  
   Fred Montgomery  
   Ronald E. Powell

Staff    William Atwood  
   Johara El-Harazin  
   Tim Kominiarek  
   Emily Reid  
   Linsey Schoemehl  
   Lorna Scott  
   Katherine Spinato  
   Alise White

Guests    State Retirement Systems  
   Maria Peterson, Timothy Blair  
   Office of the Comptroller  
   Alexis Sturm  
   Marquette Associates  
   Brian Wrubel, Nichole Roman-Bhatty, Elizabeth Francis  
   Governmental Consulting Solutions  
   Steve Zahn

Absent:        Board Members            John Casey  
   James Clayborne, Jr.  
   Alexi Giannoulis  
   Heather D. Parish

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## ***ROLL CALL***

Chairman Powell called the meeting to order at 8:45 a.m. The Secretary called the roll and noted that a quorum was present. The Chairman called for introductions by guests.

## ***COMMUNICATIONS***

Director Atwood stated that PA 96-0006 required Board Members to complete eight hours of fiduciary training annually. The Director referred to a proposed FY2011 training schedule. (Official minutes contain attachment.)

Director Atwood introduced Lorna Scott, Portfolio Officer for Valuations and Analysis.

Ms. Schoemehl distributed copies of a draft Resolution relating to the Open Meetings Act. Following review, Judge Hoffman moved to adopt the following resolution, as proposed:

### **RESOLUTION**

WHEREAS, the Open Meetings Act ensures that the actions and deliberations of public bodies are conducted openly;

WHEREAS, the Illinois State Board of Investment (Board) acknowledges its responsibilities to hold open meetings in compliance with the Open Meetings Act;

WHEREAS, the Board must adopt rules to govern an individual's right to record the proceedings at meetings required to be open under the Open Meetings Act<sup>1</sup>

NOW THEREFORE BE IT RESOLVED, if any individual wishes to record the proceedings at a meeting required to be open under the Open Meetings Act, the individual shall submit a written statement, prior to the meeting, which sets forth the individual's intent to record the meeting and the means by which the meeting will be recorded. Such statement shall be submitted to the Board's General Counsel.

<sup>1</sup> Although no standards for such rules are set forth in the Act, it has been advised by the Attorney General that taping "should not be allowed to interfere with the overall decorum and proceedings of the matter." 1975 Ill. Att'y Gen. Op. No. 17.

Ms. Bush seconded and the motion passed unanimously.

## ***REPORT OF THE CHAIRMAN***

None.

## ***MINUTES OF PREVIOUS MEETING***

Mr. Montgomery moved to approve the minutes of the meeting of the Board meetings held March 19, 2010 and April 20, 2010, with the following amendment on page 2, to the March 19, 2010 minutes:

### Audit & Compliance Committee

...Ms. White reported that the compliance and financial audit reports had previously been distributed and reviewed and there were two material findings. The first finding was regarding inadequate controls over financial reporting for securities lending transactions. This finding was classified as a material weakness. The second finding was regarding the timeliness of fair valuation measurements and disclosures for alternative investments. This finding was classified as a significant deficiency.

Ms. Bush seconded and the motion passed unanimously.

## ***REPORT OF STANDING COMMITTEES***

### Audit & Compliance Committee

Chairman Powell stated that the Audit & Compliance Committee had met prior to this meeting and referred to Ms. Bush to report on the Committee meeting. Ms. Bush reported the following actions by the Audit & Compliance Committee:

- Minutes of the March 19, 2010 meeting were approved.
- Ms. White reported that McGladrey & Pullen was performing the FY2010 audit and that compliance and some financial fieldwork were in progress. Ms. Spinato reviewed the Agency Directives Manual update.
- Ms. Spinato reported there were no exceptions to report to the Staff's Monthly Personal Interest Statements through March 2010.
- The Commission Recapture Report for the quarter ending March 2010 was reviewed and approved.
- The Records of Vouchers for the months of January, February and March 2010 were reviewed and approved.
- The Committee reviewed and accepted the report on placement agent contacts for FY 2010 4<sup>th</sup> Quarter.
- Ms. Schoemehl requested appointed Board Members to submit quarterly timesheets.

### Emerging Manager Committee

Director Atwood reported that the Emerging Manager Committee had met Thursday, June 24, 2010 and the following recommendations were made:

- Minutes of the April 9, 2010 meeting were approved.
- Marquette Associates reviewed Emerging/Minority Manager Program
- Committee discussed concerns with Globeflex and Buford Dixon performance – consensus of Committee Members to invite Buford Dixon to Emerging Manager Committee September meeting.

- Recommend RFP to search for Emerging/Minority Fixed Income manager.
- Recommend RFP to search for Emerging/Minority Transition manager.
- Consensus for consultant to review Emerging/Minority international equity managers and report back to the Committee at September meeting.
- Next meeting of Emerging Manager Committee scheduled 3:00 p.m. Thursday, September 23, 2010.

Ms. Bush moved to ratify and affirm the actions of the Emerging Manager Committee and approve the recommendations outlined above. Mr. Montgomery seconded and the motion passed unanimously.

#### Executive Committee

Director Atwood reported that the Executive Committee met on May 13, 2010 and considered two Deferred Compensation Hardship Appeals. Further, the Director reported that in both cases, the Committee affirmed the decision of the Hardship Committee and hardship distributions were denied.

### ***DEFERRED COMPENSATION***

#### Hardship Appeal

Ms. Schoemehl stated that a Hardship Appeal had been received and distributed written copies. Following review and discussion, Judge Hoffman moved to approve a hardship distribution in the amount of \$5,267.47. Ms. Bush seconded and the motion passed unanimously.

Director Atwood stated that Staff was reviewing the Hardship Committee Guidelines and detailed discussion would be held at the September meeting.

#### Consultant – Investment Manager Performance Review

Ms. Roman-Bhatty of Marquette Associates referred the Board Members to the “Illinois State Board of Investment Deferred Compensation Executive Summary” for quarter ended March 2010 and an updated report dated May 2010, and reviewed. (Official minutes contain attachments.)

#### Update on Administrative Rules

Ms. Schoemehl reviewed the status of the pending Administrative Rules relating to Public Act 96-806.

#### Adoption of Policy for ISBI Staff Time

Director Atwood referred the Board Members to the “Oversight of the State of Illinois Deferred Compensation Plan” document which had previously been distributed. The Director reviewed the amendment stating the section “Expenses for Internal Board Oversight of the Plan” was now included due to the substantial amount of time that ISBI Staff was committing to the Deferred Compensation Plan. Following review and discussion, Ms. Bush moved to approve the revised “Oversight of the State of Illinois

Deferred Compensation Plan”, as submitted. Mr. Montgomery seconded and the motion passed unanimously. (Official minutes contain attachment.)

### ***REPORT OF CONSULTANT – MARQUETTE ASSOCIATES***

#### Investment Performance Report – March 2010 and Interim Report – May 2010

Chairman Powell stated that representatives of Marquette Associates were in attendance and called on Brian Wrubel to review the investment performance. Mr. Wrubel reported that the Investment Performance Report for the quarter ending March 2010 had previously been distributed. Mr. Wrubel distributed the Flash Report for May 2010, and reviewed. Following detailed review and answering questions posed by Board Members, the Chairman thanked Mr. Wrubel for the report. (Official minutes contain attachments.)

Detailed discussion was held relating to international hedge funds, projected cash flow draw downs, Sudan and Iran restrictions and asset allocation.

Chairman Powell stated that the Board would take a 10 minute break and following the break would reconvene in Closed Session.

Following the break, the meeting was called back to order.

Chairman Powell stated that the Board would go into Executive Session to discuss investment contracts (5 ILCS 120/2(c)(7)), current litigation (5 ILCS 120/2(c)(11)) and compensation of specific Board employees (5 ILCS 120/2(c)(1)). Judge Hoffman moved to go into Executive Session for the above-stated purposes. Comptroller Hynes seconded and the motion passed unanimously.

Mr. Montgomery moved to return to the open meeting. Ms. Bush seconded and the motion passed unanimously.

Following Closed Session, Ms. Bush moved to approve a newly created position “Investment Officer Chief Financial Officer / Investment Portfolio Accounting Officer” and the revised position descriptions for the “Investment Officer Deputy Executive Director/Director of Portfolio Compliance, Investment Administration/Operations” and the “Sr. Public Service Administrator / Chief Fiscal Officer”, as outlined in the Position Descriptions and the revised Vacation Policy for Non-Code Employees. Judge Hoffman seconded and the motion passed unanimously. (Official minutes contain attachments.)

Ms. Bush moved to approve the Closed Session minutes of the meetings held July 10, 2009, September 25, 2009, October 28, 2009, February 17, 2010, March 19, 2010 and April 20, 2010, and destroy the verbatim records in accordance with 5 ILCS 120/2.06(c).

## ***REPORT OF THE DIRECTOR***

### Watch List

Mr. Richards reviewed the previously distributed "Watch List" (Official minutes contain attachment.)

### Matters Relating to Existing Managers

Mr. Richards stated that a memorandum "Matters relating to existing managers" dated June 9, 2010 had previously been distributed. (Official minutes contain attachment.)

Ms. Reid reviewed the memorandum "Matters Relating to Existing Mangers" dated June 11, 2010, relating to Risk Metrics, which had previously been distributed. (Official minutes contain attachment.)

### Approval of RFP for Trading Cost Analysis

Director Atwood reported that Staff recommends issuing a Request for Proposal for services for trading cost analysis, to be reviewed at the December 2010 meeting. Ms. Bush moved to approve issuance of an RFP for trading cost analysis. Judge Hoffman seconded and the motion passed unanimously. (Official minutes contain attachment.)

### Recommendation for Custody Services

Director Atwood referred the Board Members to a memorandum "Global Custodial Services" dated June 10, 2010. Following review, Judge Hoffman moved to approve retaining State Street Bank & Trust for custodial services. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

### Update on Securities Lending RFP's

Director Atwood stated that the status of the Securities Lending RFP would be reviewed at the September meeting.

### Adoption of Securities Lending Policy

Director Atwood referred the Board Members to a memorandum "Securities Lending Policy" dated June 10, 2010 and recommended approval, further stating that the new policy would not be effective until the pending securities lending search is finalized and a securities lending agent is approved by the Board. Following review, Ms. Bush moved to approve the Securities Lending Policy, as previously distributed and recommended by Staff. Mr. Montgomery seconded and the motion passed unanimously. (Official minutes contain attachment.)

### Revised Transition Policy

Ms. Reid reviewed the recommended revised Transition Management Policy that had previously been distributed. Following detailed review, Judge Hoffman moved to approve the revised Transition Management Policy as recommended by Staff. Mr. Montgomery seconded and the motion passed unanimously. (Official minutes contain attachment.)

### Minority Brokerage Usage Report – Quarter Ended December 31, 2009

Ms. El-Harazin stated that the "Minority Broker Commission Report as of March 31, 2010" dated June 9, 2010, had previously been distributed and stated that all domestic equity and fixed income managers surpassed the utilization goal of 20%. Further, Ms.

El-Harazin reported that Staff had begun monitoring the minority brokerage utilization for the international equity managers and there were improvements for this quarter. (Official minutes contain attachment.)

#### Adoption of Amended Disaster Recovery Policy

Ms. White referred the Board Members to the revised "Illinois State Board of Investment Disaster Recovery Plan". Following review, Ms. Bush moved to approve the amended "Illinois State Board of Investment Disaster Recovery Plan" as previously distributed. Mr. Montgomery seconded and the motion passed unanimously. (Official minutes contain attachment.)

#### Financial Statements

Ms. White stated that the Financial Statements for the quarter ending March 31, 2010 had been mailed previously. Following review, Ms. Bush moved to approve the Financial Statements for the quarter ending March 31, 2010, as submitted. Mr. Montgomery seconded and the motion passed unanimously. (Official minutes contain attachment.)

#### Adoption of Proposed FY 2011 Budget

Director Atwood reviewed the previously distributed proposed FY2011 budget. Following review and discussion, Ms. Bush moved to approve the FY 2011 Budget as proposed which included 3% annual salary increases for non-code staff. Judge Hoffman seconded and the motion passed unanimously.

#### Budget Comparison

Ms. White stated that the Budget Comparison for the quarter ending March 31, 2010 had previously been submitted. Following review the Chairman ordered the Budget Comparisons for the quarter ending March 31, 2010 to be filed. (Official minutes contain attachments.)

#### Legislative Update

Ms. Schoemehl referred the Board Members to the memorandum "Legislative Update / Pension Funding" dated June 15, 2010, which had previously been distributed and reviewed. (Official minutes contain attachment.)

#### Adoption of Code of Ethics and Approval of Board Member Travel Expenses

Ms. Reid stated that the revised Code of Ethics for Members of The Board and Code of Ethics for Members of The Staff had previously been distributed and reviewed. Following discussion, Ms. Bush moved to approve the revised Code of Ethics For Members of The Board and Code of Ethics For Members of The Staff as presented by Staff. Mr. Montgomery seconded and the motion passed unanimously. (Official minutes contain attachments.)

Ms. Reid reported that in accordance with the Illinois Pension Code (40 ILCS 5/1-150), expenses for travel of Board Members must be approved by a majority of the Board prior to travel. Judge Hoffman moved to approve all expenses for travel of Board Members, as such travel specifically related to meetings of the Board for FY 2011. Mr. Montgomery seconded and the motion passed unanimously. (Official minutes contain attachment.)

***REPORT OF ANY BOARD MEMBER***

None.

***UNFINISHED BUSINESS***

None.

***NEW BUSINESS***

Chairman Powell thanked the Staff for all of their hard work during this fiscal year.

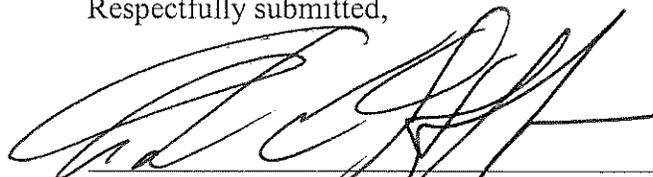
***NEXT MEETING AND ADJOURNMENT***

Chairman Powell stated that the next regularly scheduled meetings of the Audit & Compliance Committee and Board were scheduled to be held Friday, September 24, 2010 at 8:30 a.m. and 8:45 a.m., respectively.

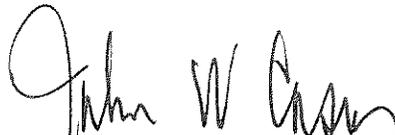
The Chairman stated that a meeting of the Emerging Manager Committee was scheduled for September 23, 2010 at 3:00 p.m.

At 11:30 a.m., there being no further business to come before the Board, Ms. Bush moved to adjourn. Judge Hoffman seconded and the meeting was adjourned.

Respectfully submitted,



Thomas E. Hoffman, Recording Secretary  
Illinois State Board of Investment



John W. Casey, Chairman  
Illinois State Board of Investment